

**REPORT OF THE AUDIT OF THE  
FORMER ROWAN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period December 1, 2002  
Through January 5, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER ROWAN COUNTY**  
**SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period December 1, 2002**  
**Through January 5, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Rowan County Sheriff for the period December 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$576,161 for the districts for 2002 taxes for the period December 1, 2002, through January 5, 2003, retaining commissions of \$23,674 to operate the Sheriff's office. The former Sheriff distributed taxes of \$549,314 to the districts for 2002 taxes. Taxes of \$2,177 are due to the districts from the former Sheriff.

**Report Comments:**

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$410,897 To Protect Deposits
- Lacks Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were not adequately secured on December 9, 2002.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Rebecca Carter, Former Rowan County Sheriff

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the former Rowan County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003. This tax settlement is the responsibility of the former Rowan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Rowan County Sheriff's taxes charged, credited, and paid for the period December 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Rebecca Carter, Former Rowan County Sheriff

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$410,897 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -  
October 9, 2003



ROWAN COUNTY  
REBECCA CARTER, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

For The Period December 1, 2002  
Through January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 99,972	\$ 118,563	\$ 714,095	\$ 268,968
Additional Billings	70	79	499	176
Clay Reserves	38	46	281	96
Bank Franchises	41,785			
Gross Chargeable to Sheriff	<u>\$ 141,865</u>	<u>\$ 118,688</u>	<u>\$ 714,875</u>	<u>\$ 269,240</u>
<u>Credits</u>				
Exonerations	\$ 279	\$ 336	\$ 2,053	\$ 698
Discounts	483			
Uncollected Additional Billings	70	79	499	176
Uncollected Clay Reserves	38	46	281	96
Uncollected Bank Franchises	17,612			
Transfers to Incoming Sheriff	53,416	63,737	386,766	141,842
Total Credits	<u>\$ 71,898</u>	<u>\$ 64,198</u>	<u>\$ 389,599</u>	<u>\$ 142,812</u>
Taxes Collected	\$ 69,967	\$ 54,490	\$ 325,276	\$ 126,428
Less: Commissions *	2,974	2,316	13,011	5,373
Taxes Due	\$ 66,993	\$ 52,174	\$ 312,265	\$ 121,055
Taxes Paid	66,821	51,848	310,272	120,373
Refunds (Current and Prior Year)	83	99	606	208
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 89</u>	<u>\$ 227</u>	<u>\$ 1,387</u>	<u>\$ 474</u>
* Commissions:				
4.25% on	\$ 250,885			
4% on	\$ 325,276			
** Special Taxing Districts:				
Library District		\$ 105		
Health District		122		
Due Districts		<u>\$ 227</u>		

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff's office maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff's office entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, on December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$410,897 of public funds uninsured and unsecured.

ROWAN COUNTY  
 NOTES TO THE FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,000,000
Uncollateralized and uninsured	<u>410,897</u>
Total	<u><u>\$ 3,510,897</u></u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 1, 2002 through January 5, 2003.

Note 4. Interest Income

The former Rowan County Sheriff earned \$100 as interest income on 2002 taxes for the period December 1, 2002, through January 5, 2003. As of October 9, 2003, the former Sheriff over paid the school district \$123 in interest and owed \$46 in interest to her fee account.

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## COMMENTS AND RECOMMENDATIONS



ROWAN COUNTY  
REBECCA CARTER, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period December 1, 2002  
Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$410,897 To Protect Deposits

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On December 9, 2002, \$410,897 of the Sheriff's office deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Former Sheriff's Response:*

*Will take care of this.*

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's office internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's office ability to record, process, summarize, and report accurate financial information. We recommend compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the official
- Periodic surprise cash counts by the official
- Agree daily tax collection totals to receipts ledger and deposit slip
- Agree monthly tax reports to receipts ledger and disbursements ledger
- All disbursement checks are to be signed by two people and one being the official
- Official delivers tax distribution checks and monthly tax reports to taxing districts
- The official or someone independent of the Sheriff's Office prepare the bank reconciliation

*Former Sheriff's Response:*

*Will try to do this.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Honorable Rebecca Carter, Former Rowan County Sheriff  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Rowan County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003, and have issued our report thereon dated October 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rowan County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$410,897 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 9, 2003

